

**FINCA GEORGIA**  
**Branch of FINCA International, Inc.**

*Financial Statements for the year ended 31 December 2007,  
and Independent Auditors' Report*

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საქართველოს აუდიტორული და საკონსულტაციო კომპანია  
**Georgian Audit & Consulting Company**

**A Horwath Business Alliance Association**

**INDEPENDENT AUDITOR'S REPORT**

*To the founders of FINCA Georgia and FINCA International, Inc.*

We have audited the accompanying balance sheet of FINCA Georgia ("The Organization") as of 31 December 2007, and related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Audit Those Standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Organization as of December 31, 2007 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards.

**Georgian Audit & Consulting Company (GACC)**  
**A Horwath Business Alliance Associate**

*GACC*

**March 17, 2008**



**FINCA GEORGIA Branch of FINCA International, Inc.**

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**BALANCE SHEET STATEMENT as at December 31, 2007 (in US Dollars)**

		<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	2,328,445	5,033,601
Loans to customers, net	3	14,053,938	9,236,184
Accounts receivable	4	196,032	159,557
Prepaid and other current assets	5	80,003	36,775
<b>Total Current Assets</b>		<b>16,658,418</b>	<b>14,466,117</b>
<b>Noncurrent assets</b>			
Net property and equipment, net	6	347,011	137,965
<b>Total Noncurrent Assets</b>		<b>347,011</b>	<b>137,965</b>
<b>Total Assets</b>		<b>17,005,429</b>	<b>14,604,082</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Short-term notes payable	7	1,139,007	1,482,307
Fees payable to FINCA International	13	70,535	127,468
Other accounts payable & accruals	8	71,934	41,052
Taxes payable	9	(8,730)	34,309
Interest payable	10	65,601	40,146
<b>Total Current Liabilities</b>		<b>1,338,347</b>	<b>1,725,282</b>
<b>Noncurrent liabilities</b>			
Long-term notes payable	7	7,758,484	5,441,154
Other long-term liabilities		-	
<b>Total Noncurrent Liabilities</b>		<b>7,758,484</b>	<b>5,441,154</b>
<b>Minority interests</b>			
<b>Total Liabilities</b>		<b>9,096,831</b>	<b>7,166,436</b>
<b>Equity</b>			
Retained Earnings		7,143,429	7,086,188
Currency Translation Adjustments		765,169	351,458
<b>Total Equity</b>		<b>7,908,598</b>	<b>7,437,646</b>
<b>Total Equity and Liabilities</b>		<b>17,005,429</b>	<b>14,604,082</b>

On behalf of the Management

\_\_\_\_\_  
Country Director\_\_\_\_\_  
Chief Accountant\_\_\_\_\_  
*The accompanying notes are an integral part of these financial statements.*

**FINCA GEORGIA Branch of FINCA International, Inc.**

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**STATEMENTS OF ACTIVITIES For the year ended December 31, 2007 (in US Dollars)**

		<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>Operating Revenue</b>			
Income from portfolio		4,363,168	4,592,681
Income on investments		116,695	42,966
Penalty fees		246,507	196,980
Other income		409,367	239,179
<b>Total Operating Revenue</b>		<b>5,135,737</b>	<b>5,071,806</b>
<b>Expenses</b>			
Financial cost	11	(670,736)	(539,162)
Impairment losses on loans		(163,736)	(516,758)
Operating expenses		(4,049,327)	(2,942,241)
Net Operating Margin (before forex gain/loss, taxes and donations)		251,938	1,073,645
Translation Gain/Loss		(60,178)	58,645
NOM (before taxes and donations)		191,760	1,132,290
Taxes	12	(143,491)	(191,787)
<b>NOM (after taxes before donations)</b>		<b>48,269</b>	<b>940,503</b>
<b>Non-operating income</b>			
Other non-operating income		17,323	-
<b>Non-operating expenses</b>		<b>(8,351)</b>	<b>-</b>
Net Non-operating Income/Expenses		8,972	-
<b>Net Income</b>		<b>57,241</b>	<b>940,503</b>

**On behalf of the Management**\_\_\_\_\_  
**Country Director**\_\_\_\_\_  
**Chief Accountant**\_\_\_\_\_  
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**STATEMENT OF FUNCTIONAL EXPENSES For the year ended December 31, 2007***(in US Dollars)*

			December 31, 2007	December 31, 2006
	Program Services	General and Administrative	Total	Total
Professional fees and contract services	88,057	133,639	221,696	125,421
Salaries	1,338,178	262,579	1,600,757	1,042,015
Employee benefits	240,417	1,706	242,123	161,235
Payroll taxes	167,036	49,419	216,455	144,141
Travel	201,657	40,249	241,905	257,263
Occupancy and utilities	252,038	90,208	342,246	249,394
Supplies and miscellaneous	66,702	21,886	88,588	43,763
Telephone and communications	117,016	15,619	132,636	84,703
Meetings and conferences	1,242	-	1,242	4,344
Printing and publication	-	6,824	6,824	7,282
Depreciation	71,373	23,792	95,165	28,838
Disposal of Fixed Assets	-	-	0	6,947
Provision for loan losses	163,736	-	163,736	516,758
Affiliation fee to FINCA	-	252,000	252,000	252,000
Management fee to FINCA	-	262,850	262,850	145,265
Advertising/Promotion	21,897	2,898	24,795	23,196
Bank charges	117,882	6,627	124,510	129,542
Interest expenses	670,002	-	670,002	539,163
<b>Total direct costs</b>	<b>3,517,231</b>	<b>1,170,297</b>	<b>4,687,528</b>	<b>3,761,271</b>
Income tax expense	-	-	143,491	191,787
Other taxes	-	-	160,758	158,286
Repairs and maintenance	-	-	8,925	38,389
Other expenses	-	-	77,060	40,217
<b>Indirect costs</b>	<b>-</b>	<b>-</b>	<b>390,233</b>	<b>428,677</b>
<b>Total expenses</b>	<b>3,517,231</b>	<b>1,170,297</b>	<b>5,078,496</b>	<b>4,189,948</b>

**On behalf of the Management**\_\_\_\_\_  
**Country Director**\_\_\_\_\_  
**Chief Accountant***The accompanying notes are an integral part of these financial statements.*

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**STATEMENT OF CASH FLOWS For the year ended December 31, 2007 (in US Dollars)**

	for the year ended December 31, 2007	for the year ended December 31, 2006
<b>Cash Flows from Operating Activities</b>		
Change in net assets	191,760	1,132,290
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	95,165	28,838
Loan loss provision	163,736	516,758
Loss from disposal of fixed assets	-	6,947
Grants liquidations	-	-
Interest expenses	670,736	539,162
<b>Changes in current assets and liabilities:</b>		
(Increase) decrease in:		
Loans and advances receivables	(4,720,481)	(500,327)
Other receivables and assets	(79,703)	(50,429)
Increase (decrease) in:		
Accounts payable and accrued expenses	(26,051)	(73,458)
Increase in taxes payable, other than profit tax	(595)	(5,770)
Profit tax	(42,444)	(260,815)
<b>Net cash (used in) provided by operating activities</b>	<b>(3,747,878)</b>	<b>1,333,196</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(285,719)	(141,988)
<b>Net cash used in investing activities</b>	<b>(285,719)</b>	<b>(141,988)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from notes payable	1,974,030	2,623,461
Interest paid	(696,191)	(534,518)
Proceeds from donated grants		
<b>Net cash provided by financing activities</b>	<b>1,277,839</b>	<b>2,088,943</b>
<b>Effect on exchange rate changes on cash and cash equivalents</b>	<b>50,603</b>	<b>351,458</b>
<b>Net increase in cash and cash equivalents</b>	<b>(2,705,156)</b>	<b>3,631,609</b>
Cash and Cash Equivalents		
Beginning	5,033,601	1,401,992
Ending	2,328,445	5,033,601

**On behalf of the Management**\_\_\_\_\_  
**Country Director**\_\_\_\_\_  
**Chief Accountant***The accompanying notes are an integral part of these financial statements.*

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**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Nature of Activities and Significant Accounting Policies**

**GENERAL INFORMATION**

FINCA International, Inc. ("FINCA Inc."), a not-for-profit organization, is incorporated in the USA. The purpose of FINCA Inc. is to "Help the poor help themselves". FINCA Inc. believes that world hunger and poverty cannot be cured simply by food handouts and grants but can be permanently affected by self-sufficiency of the poor.

FINCA Inc. provides self-help opportunity by establishing community revolving loan funds, or "village banks", in impoverished communities through affiliated organizations ("affiliates"). The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA Inc. Small loans support in individual or community productive micro enterprises. Participants build self-reliance, and a savings fund that remains within the community as a permanent source of capital for continued investment.

FINCA Georgia ("the Organization") is the affiliate of FINCA Inc. in Georgia. Through its regional hub headquartered in Kiev, Ukraine ("FINCA HUB"), FINCA Inc. carries out Small Enterprise Technical Assistance and Financing Programs in the Eastern Europe and Central Asia.

The Organization's mission is to support the economic and human development of Georgian families trapped in severe poverty. This is accomplished through the creation of Credit Groups-association of several individual members who receive the following services: working capital loans to finance self-employment activities and a mutual support system that encourages self-worth and personal development.

The Organization began lending in July 1998. The Organization was registered to comply with statutory regulations on 19 April 1999.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) on the historical cost basis of accounting. The principal accounting policies adopted are set out below.

The Company maintains its accounting records in local currency (Georgian Lari) and in accordance with International Accounting Standards. The application of IAS requires the use of reasonable assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the operating period. Actual results could differ from these estimates.

**Cash and cash equivalents**

Cash includes cash on premises as well as cash on bank accounts, and short-term, highly liquid investments with original maturities of three month or less.

**Foreign currencies**

Transactions denominated in foreign currencies are translated into GEL at the official exchange rate of the National Bank of Georgia on the date of transaction, which approximates the prevailing market rates. Monetary assets and liabilities denominated in foreign currencies are accounted based on historical cost and are translated at the rate of exchange on the balance sheet date. Official exchange rate for the principal currency as of December was (GEL for a unit of foreign currency):

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**Foreign currencies (Continued)**

Details of the exchange rates are as follows:

31 December 2007	USD 1 = GEL 1.5916
31 December 2006	USD 1 = GEL 1.7135
Average for the year 2007	USD 1 = GEL 1.6694

**Fixed assets**

Tangible fixed assets are stated at historical cost less accumulated depreciation. Original historical cost of a fixed asset consists of purchase price, non-recoverable taxes and other expenses directly related to putting a fixed asset into use.

Value of liquidated and sold fixed assets and congruent amount of depreciations is written off from account and congruent profit or lose from operation is taken into current year profit lose statement.

Depreciation is charged to the historical cost for all fixed assets using the straight-line method on a monthly basis. Rates for the main fixed asset groups are the following:

Computer equipments	3 year
Vehicles	5 year
Furniture and equipments	5 year
Office equipments	5 year

The organization timely conducted inventory of goods according to the financial and administrative regulations and all fixed assets are marked.

Until end of 2005, the Organization used to capitalize all the purchases more than \$ 5000, but since January 1, 2006 the policy of recognizing and recording Fixed Assets has been aligned with the statutory accounting which mandates threshold of GEL 100

**Revenue and expense recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is on dispatch from the Company's premises.

Revenue consists of loan interest, fees for loan services (revenue from financial service), penalties and other revenue.

Expenses are recognized on the accrual basis. During the current financial year expenses are divided on program services expenses, general and administrative expenses and indirect cost.

**Taxation**

Social security contributions are recognized in the period, in which they arise. Under national tax regulations the company has to pay 20% of social tax on salaries.

The company pays property tax and a corporate profit tax of 20% is charged on the profit received from economic activities.

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**Deferred Taxes**

Method of recognition - The tax expense for the period is determined on the basis of tax effect accounting, using the liability method. The expected tax effects of current timing differences are determined and reported either as liabilities for taxes payable in the future or as assets representing advance payments of future taxes. Deferred tax balances are adjusted for changes or expected future changes in the tax rate.

Deferred tax asset - The tax effect of timing differences that result in a deferred tax asset is recognized only if there is a reasonable expectation of its realization.

**Loans and advances receivables**

Loans and advances to customers are stated at the unpaid principal balance less provisions for loan losses. FINCA estimates amounts of possible losses on loans and advances at the statement of financial position date to determine the provisions, and believes they are reasonable, having regard to the risks in lending in our market areas. FINCA recognizes that economic and regulatory conditions may have an impact on the debtors' ability to repay loans.

All delinquent loans are provided for by specific provisions using prescribed percentages depending on overdue days. In determining its specific provision FINCA classifies loans and advances into categories based on aging analysis and applies the following minimum rates:

Overdue days	Prescribed percentages for creation specific provisions
1 - 7 days past due	1 %
8 - 30 days past due	10 %
31 - 60 days past due	25 %
61-90 days past due	50 %
91-180 days past due	75 %
181 or more days past due	100 %

FINCA also maintains a minimum general provision of 1 % against the current loan portfolio at the end of each month.

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to any penalty fines due, then to interest due, and then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid. The organization does not convert late or penalty interest into principal.

The amount of interest accrued as of December 31, 2007 is \$ 188,027 (as of December 31, 2006: \$ 131,636).

At the time a loan is deemed doubtful, or management believes the contractual interest or principal due will not be collected, the loan is classified as non-performing and any interest accrued is reversed. As at December 31, 2007 the allowance for doubtful accounts was \$ 232,575 (As at December 31, 2006: \$ 516,758).

Loans overdue for more than 180 days are written-off as unrecoverable. Loans are written-off before reaching 180 days overdue if it is determined that they are unrecoverable.

FINCA does not accrue interest on loans with payments more than 30 days overdue.

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**Note 2. Cash and cash equivalents**

	December 31, 2007	December 31, 2006
Cash in bank	2,328,295	5,032,925
Cash on hand	150	676
<b>Total cash and cash equivalents</b>	<b>2,328,445</b>	<b>5,033,601</b>

**Note 3. Loans to customers, net**

Loans to customers are made within Georgia Tbilisi, Lilo, Kakheti, Kvemo Kartli, Samegrelo, Achara, Samtskhe Javakheti, Shida Kartli, Kvemo Kartli, Imereti, Zemo Imereti in the cities and in rural areas. Most loans outstanding as of 31 December 2007 were granted to groups of small entrepreneurs, some of them were granted to individuals. The loan life for group loans is standardized and ranges from 12 to 48 weeks. The principal and interest amounts are payable in equal installments weekly, bi-weekly or monthly depending on loan cycle. In the case of group loans interest is charged on the basis of the original principal amount irrespective of principal repayments. In the case of individual loans interest is charged on the reducing balance. The loan life for individual loans ranges from 17 to 104 weeks.

Loans to individuals are secured principally by cars, equipment and home appliances. Some loans are secured by inventory or shop premises. Loans to groups are not collateralized or secured.

Loans and advances receivable at December 31, 2007 consist of the following:

	December 31, 2007	December 31, 2006
Loans and advances receivable	14,286,513	9,566,032
Less allowance for doubtful accounts	(232,575)	(329,848)
	<b>14,053,938</b>	<b>9,236,184</b>

The aging of those loans receivables at December 31, 2007 consist of the following:

Normal loans	Portfolio at risk	Amount	% for creation specific provisions	Provision
Current	98.1%	14,039,911	1%	(140,098)
1 - 7 days past due	0.3%	47,362	1%	(474)
8 - 30 days past due	0.4%	61,817	10%	(6,182)
31 - 60 days past due	0.2%	24,360	25%	(6,090)
61 - 90 days past due	0.2%	21,466	50%	(10,733)
91 - 180 days past due	0.6%	91,596	75%	(68,697)
181 or more days past due	-	-	100%	-
<b>Subtotal</b>	<b>99.8%</b>	<b>14,256,425</b>		<b>(232,575)</b>
<b>Rescheduled loan</b>				
Current	0.2%	30,088	1%	(301)
<b>Subtotal</b>	<b>0.2%</b>	<b>30,088</b>	<b>1%</b>	<b>(301)</b>
<b>Total</b>	<b>100 %</b>	<b>14,286,513</b>		<b>(232,575)</b>

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**Note 3. Loans to customers, net (continued)**

The aging of those loans receivables at December 31, 2006 consist of the following:

Normal loans	Portfolio at risk	Amount	% for creation specific provisions	Provision
Current	95,0%	9,086,177	1%	(90,862)
1 - 7 days past due	0,4%	34,765	1%	(348)
8 - 30 days past due	0,8%	78,355	10%	(7,835)
31 - 60 days past due	0,5%	48,346	25%	(12,087)
61 - 90 days past due	0,8%	74,508	50%	(37,254)
91 - 180 days past due	2,5%	241,924	75%	(181,443)
181 or more days past due	-	-	100%	-
<b>Subtotal</b>	<b>100%</b>	<b>9,564,075</b>		<b>(329,829)</b>
<b>Rescheduled loan</b>				
Current	0,0%	1,957	1%	(20)
<b>Subtotal</b>	<b>0,0%</b>	<b>1,957</b>	<b>1%</b>	<b>(20)</b>
<b>Total</b>	<b>100 %</b>	<b>9,566,032</b>		<b>(329,848)</b>

The change in the loan loss provision for the year ended December 31, 2007, consists of the following:

	for year ended December 31, 2007	for year ended December 31, 2006
Beginning balance	329,848	234,034
Current year provision for loan loss	163,736	516,758
Foreign exchange loss on revaluation of provision	22,780	22,321
Recovery of losses	199,469	38,414
Write offs	(483,258)	(481,678)
	<b>232,575</b>	<b>329,848</b>

**Note 4. Accounts Receivable**

Accounts receivable at December 31, 2007, consist of the following:

	December 31, 2007	December 31, 2006
Interest income accrued on loans to customers	188,027	131,636
Bank interest on deposit	-	27,856
Other account receivable	8,005	65
<b>Total Account Receivable</b>	<b>196,032</b>	<b>159,557</b>

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**Note 5. Prepaid expenses**

Prepaid expenses as at December 31, 2007 consist of the following:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Prepaid expenses	21,298	20,626
Prepaid Rent	17,000	16,149
Deferred Tax Asset	41,705	-
<b>Total Prepared expenses</b>	<b>80,003</b>	<b>36,775</b>

**Note 6. Property and equipment**

Property and equipment and accumulated depreciation at December 31, 2007 consist of the following:

<b>Cost of property and equipment</b>	<b>Estimated Useful Lives</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net</b>
Building improvements	2-26 years	48,613	33,821	20,036	62,398
Computer equipment and	3-5 years	164,844	271,451	18,517	417,778
Office furniture and equipment	3-10 years	36,815	19,452	451	55,816
<b>Total cost as at December 31, 2007</b>		<b>250,272</b>	<b>324,724</b>	<b>39,004</b>	<b>535,992</b>
<b>Accumulated depreciation</b>					
Building improvements	2-26 years	23,210	18,957	11,736	29,594
Computer equipment and	3-5 years	72,086	78,697	18,054	136,248
Office furniture and equipment	3-10 years	17,011	9,260	451	23,139
<b>Total accumulated depreciation</b>		<b>112,307</b>	<b>106,915</b>	<b>30,241</b>	<b>188,981</b>
<b>Net book value</b>		<b>137,965</b>	<b>217,809</b>	<b>8,763</b>	<b>347,011</b>

Property and equipment and accumulated depreciation at December 31, 2006 consist of the following:

<b>Property and equipment</b>	<b>Estimated Useful Lives</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net</b>
Building improvements	2-26 years	15,679	32,934	-	48,613
Computer equipment and	3-5 years	87,302	82,018	4,476	164,844
Office furniture and equipment	3-10 years	12,279	27,036	2,500	36,815
<b>Total cost as at December 31, 2006</b>		<b>115,260</b>	<b>141,988</b>	<b>6,976</b>	<b>250,272</b>
<b>Accumulated depreciation</b>					
Building improvements	2-26 years	11,386	11,824	-	23,210
Computer equipment and	3-5 years	60,366	11,749	29	72,086
Office furniture and equipment	3-10 years	11,746	5,265	-	17,011
<b>Total accumulated depreciation</b>		<b>83,498</b>	<b>28,838</b>	<b>29</b>	<b>112,307</b>
<b>Net book value</b>		<b>31,762</b>	<b>113,150</b>	<b>6,947</b>	<b>137,965</b>

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**Note 7. Notes Payable**

Short-term notes payable as of 31 December 2007 consist of the following:

<b>The name of Lender</b>	<b>Secured</b>	<b>Unsecured</b>	<b>At December 31, 2007</b>	<b>At December 31, 2006</b>
Loans from Financial Institutions	75,982	632,824	783,807	1,482,307
Related Party	75,000	355,200-	355,200	-
<b>Total short-term notes payable</b>	<b>150,982</b>	<b>988,024</b>	<b>1,139,007</b>	<b>1,482,307</b>

Long-term notes payable as of 31 December 2007 consist of the following:

<b>The name of Lender</b>	<b>Secured</b>	<b>Unsecured</b>	<b>At December 31, 2007</b>	<b>At December 31, 2006</b>
Loans from Financial Institutions	225,000	4,688,684	4,913,684	2,241,154
Related Party	-	2,844,800	2,844,800	3,200,000
<b>Total long-term notes payable</b>	<b>225,000</b>	<b>7,533,484</b>	<b>7,758,484</b>	<b>5,441,154</b>

Maturities of notes payable at December 31, 2006, are due in future fiscal years as follows:

<b>Years ending December, 31</b>	<b>2007</b>	<b>2006</b>
2007	-	1,482,307
2008	1,139,007	646,354
2009	1,493,842	1,010,400
2010	3,343,842	860,400
2011	2,210,400	2,210,400
2012	710,400	713,600
2013	-	-
<b>Total Notes Payable</b>	<b>8,897,491</b>	<b>6,923,461</b>

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**Note 8. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses at December 31, 2007 consist of the following:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Accounts payable	37,217	23,123
Accrued audit fee payable	17,700	14,500
Other accounts payable	17,017	3,429
<b>Total</b>	<b>71,934</b>	<b>41,052</b>

**Note 9. Taxes payable**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Provision for income tax	-	29,700
Social Insurance tax payable	2,430	2,775
Income tax payable	(11,159)	1,834
<b>Total taxes payable</b>	<b>(8,730)</b>	<b>34,309</b>

**Note 10. Interest payable**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Accrued interest payable to Financial Institution	63,601	40,146
Accrued interest payable to Related Party	2,000	-
<b>Total Interest payable</b>	<b>65,601</b>	<b>40,146</b>

**Note 11. Financial cost**

	<b>for the year ended December 31, 2007</b>	<b>for the year ended December 31, 2006</b>
Interest expense and other financial cost accrued - Financial Institutions	371,216	261,222
Interest expense and other financial cost accrued – Related Party	299,520	277,940
<b>Total financial cost</b>	<b>670,736</b>	<b>539,162</b>

Withholding taxes and commission fees are included in the content of the other financial costs. As at 31 December 2007 withholding taxes are accrued in the amount of \$ 91,342 and commission fees are accrued in the amount of \$13,926. The withholding taxes were paid to tax authorities in the moment of interest payment to the lenders.

**Note 12. Income tax**

<b>Income tax charge</b>	<b>Year ended 31 December 2007</b>	<b>Year ended 31 December 2006</b>
Current income tax charge	(143,491)	(191,787)
<b>Total income tax charge</b>	<b>(143,491)</b>	<b>(191,787)</b>

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**Note 12. Income tax (Continued)**

During 2007 the Organization was subject to a 20% income tax rate on taxable profits (2006: 20%).

Net profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
<b>Profit before income tax</b>		
Theoretical tax (charge) at an average statutory tax rate of 20 %	(284,645)	(296,750)
Tax effect of items which are not deductible or assessable for taxation purposes	141,154	104,963
<b>Total income tax charge</b>	<b>(143,491)</b>	<b>(191,787)</b>

As of December 31, 2007 the Organization had \$103,566 in uncollected loan interest and penalties, which is included into the taxable profit of year 2007 but will be deductible from the taxable profit of 2008. Also, loan loss provision, which is not tax deductible, amounted to \$ 163,736. As the income tax rate for 2008 is 15% (20% before the end of 2007) the deferred income tax asset is calculated at \$ 41,705. As of December 31, 2006 the Organization did not have any significant temporary differences between the carrying and tax values of its assets and liabilities, and, therefore, there are no material deferred tax assets or liabilities as of these dates. Therefore, the total corporate income tax expense is fully represented by the current portion of corporate income tax.

**Note 13. Related Party Transactions**

The related parties of the Organization include key management of the Organization, FINCA and other companies of the FINCA group (i.e. FINCA HUB and all affiliates).

Loans and Notes from FINCA Capital Fund LLC and FINCA International, Inc.:

As of 31 December 2007 the Organization had liabilities in respect of long-term loans received from FINCA in the total amount of USD 3,200,000. Loans in amount of \$3,200,000 were issued to the Organization by FINCA at 9.36 % per annum with maturity on 31 December 2012. As of 31 December 2006 the Organization had liabilities in respect of long-term loans received from FINCA in the total amount of USD 3,200,000. Loans were issued to the Organization by FINCA at 9.36% per annum with maturity on 31 December 2012.

Affiliation fees:

During the year ended 2007 the customers of the Organization were charged an affiliation fee of 1-3% of the loan amount upon receipt of new loans. During this period the Organization received affiliation fees from its customers in the amounts of \$ 409,367 (2006: \$ 238,424).

During the year ended 2007 the Organization was charged an affiliation fee by FINCA in the amounts of \$ 252,000 (during 2006: \$ 252,000). The affiliation fee is calculated as a percentage (currently 1%) of the Organization's loan disbursements. As of 31 December 2007 the Organization had liabilities for affiliation fees payable to FINCA in the amount of \$21,000 (as of December 31, 2006: \$21,000).

Management fees: During the year ended 2007 the Organization received management services from FINCA. The amount of such services was \$ 262,850 (2006: \$145,265). As of 31 December 2007 the Organization had liabilities for management fees payable to FINCA in the amount of \$49,535.

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**Note 13. Related Party Transactions (Continued)**

Other reimbursable expenses: Additionally there were other reimbursable (non-labor) expenses made and billed by FINCA. The amount of the expenses in the year ended 2007 was \$25,181. Settlements between the Organization and FINCA are normally made in the manner of decreases and increases of the amount of funds held by the Organization with FINCA (although sometimes direct wire transfers of funds via banks are used) and on the terms agreed with FINCA (currently settlements are made on a monthly basis). As of 31 December 2007 the Organization had liabilities for Management fees and other reimbursable expenses payable to FINCA in the total amount of \$70,535 (as of December 31, 2006: \$106,603).

Insider loans: The Organization's policy forbids loans to the board members, country director, staff or their families.

**Note 14. Fair Value of Financial Instruments**

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Company is presented below:

	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Current amount (USD)</b>	<b>Fair value (USD)</b>	<b>Current amount (USD)</b>	<b>Fair value (USD)</b>
Cash	150	150	676	676
Due from banks	2,328,295	2,328,295	5,032,925	5,032,925
Borrowings	7,758,484	7,758,484	5,441,154	5,441,154

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

**Note 15. Commitments and Contingencies****Legal Transformation**

The following changes took effect in the Georgian Tax Code since the year 2008: The social tax was abolished (20%), while personal income tax was increased from 12% to 25%. Income tax was reduced from 20% to 15%.

According to the amendments made in February 25, 2005 in the Civil Code of Georgia the legal status of microfinance organization was defined.

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On July 18, 2006 a new Law on Micro Finance Organizations was adopted which allowed organizations operating micro-lending activities to register as microfinance organizations and conduct their activities in compliance with the established law and regulations.

In accordance to the decision of the Executive Committee of the Board of Directors of FINCA International, Inc., FINCA Georgia has undertaken legal transformation effort at the end of year 2007. The objective of this transformation is for the FINCA International's Branch FINCA Georgia to become a legal entity (Joint Stock Company and Micro-Finance Institution regulated by the National Bank of Georgia). The new status will enable JSC MFI FINCA Georgia to implement new product (currency exchange, remittances, utility bill payments, etc.), which was not possible without such transformation, also will contribute to its reputation and credibility at the local market. This decision was partially motivated by the requirement of Law of Georgia On Microfinance, which can not be directly attributed to FINCA Georgia due to exceptional status of the company.

**Lease Obligations**

FINCA Georgia leases office space in the North, West, East and South region to support its operations and project activity. Total office rent expense for FINCA Georgia for the year ended December 31, 2007 was \$312,135 (2006: \$232,569).

**New Software Implementation**

FINCA Georgia started new software implementation in the last two quarters of 2007. The software will enable higher level of internal control and improved analytical capability, also it will be quite flexible to support new product development. It is expected that the implementation will commence in the first quarter of 2008.

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